

Bridging the Rural-Urban Opportunity Gap

By Eric Scorson, Dawn Thilmany, and Stephan Weiler

The last ten years have witnessed both improvements and declines in the rural-urban wage, income, and employment gaps. As Table 1 shows, rural Kentucky has managed to keep pace with rural America in terms of job creation and wage measures, even outpacing rural America's overall per capita income change. At the state level, Kentucky has been closing the income gap between itself and the rest of the nation.¹ But rural Kentucky continues to fall behind both urban Kentucky and the United States as a whole with regard to job growth, wages, and overall income. This earnings gap dropped between 1970 and 1985 but then began to climb again during the last decade, perhaps partly because the so-called "new economy" industries largely bypassed rural Kentucky. While the current technology slump reveals the potential dangers of relying on these industries, current short-term weakness does not accurately measure long-term potential. But regardless of its causes, the growing gap between per capita personal income in rural Kentucky and urban America would have been even greater had it not been for the rapid increase in retirement income and *residence-adjusted wages*.

During the 1990s—a time largely acknowledged as the longest period of economic expansion in the nation's his-

tory—the rural South experienced a 16.5 percent growth in its number of jobs, nearly matching the nation's 17.5 percent growth. However, the earnings differential between the rural South and the rest of the nation—now at its highest rate since 1969—grew from \$5,893 in 1978 to \$10,900 in 1998.²

The number of jobs in rural Kentucky may have grown, but job quality and rural-urban per capita income disparities have continued to worsen.

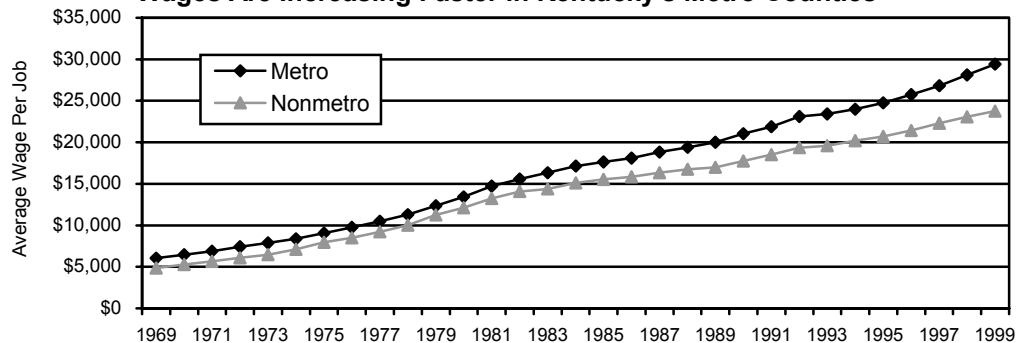
Figure 1 depicts the expansion of this gap between average wages in Kentucky's metro and nonmetro counties over a 30-year span, from 1969 to 1999. For a time, increases in nonmetro wages more or less kept pace with wage increases in metro areas, though consistently lagging behind. Then, in the early 1980s, nonmetro wages began to fall far-

TABLE 1
Basic Economic Trends for Rural Kentucky, 1990-1999

	Avg. Earnings per Job Change	Per Capita Net Earning Change	Employment Growth	Per Capita Income Change	Per Capita Retirement Income Change
Urban US	41.1	46.5%	17.5%	50.1%	58.9%
Rural US	33.9	41.6	17.3	45.0	62.7
Urban KY	39.8	50.0	22.7	51.9	60.0
Rural KY	34.0	40.6	16.5	47.5	71.5

FIGURE 1

Wages Are Increasing Faster in Kentucky's Metro Counties



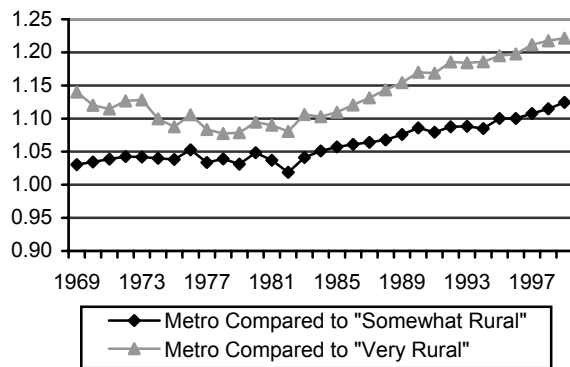
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ther and farther behind, exacerbating the wage gap. Figure 2 offers a more nuanced representation of this trend during the same span of time, using Beale Codes to contrast wages in

FIGURE 2
Kentucky's Geographic Wage Gap
Ratio between Beale Codes [9-8-7 and 6-5-4] and [3-2-1-0]



urban areas with those in "somewhat rural" areas and with wages in "very rural" areas. Again we see that urban wages continually outstrip wages available elsewhere, but "very rural" areas suffer from this disparity to an even greater extent than do "somewhat rural" areas. Clearly, rural Kentucky is in trouble.

Rural Kentucky, along with much of rural America, faces serious questions concerning its prospects for economic per-

formance in the future; and future economic opportunities in rural Kentucky will partly be determined by current comparative advantage. Traditionally, rural Kentucky's economy has been based on agriculture and coal, but these industries have suffered declines in recent years due to international competition and declining demand. Exacerbating rural Kentucky's woes, the disparity between rural and urban economic opportunities has helped precipitate a drain on the rural workforce as an increasing number of people commute or migrate in pursuit of higher-quality, better-paying jobs.³ The resulting loss of young people—the workforce of the future—portends further economic decline and marginalization for Kentucky's rural areas.

A Conceptual Framework for Rural Development Policy in Kentucky

Recent discourse on rural economic development has included demands from economists for an integrated approach to economic development, neglecting to emphasize the need to delineate a framework for the policies themselves.^{4,5} However, to maximize efficacy, any effort to develop an integrated approach should begin with an examination of the basic development strategies, the logic behind them, their strengths and weaknesses, and the ways in which they interact with one another.

The discussion that follows breaks into three broad categories the various approaches to rural economic development, taking care to address the issues listed above. In the end, we hope to provide a starting point from which policymakers, civic groups, and entrepreneurs can conceive and execute the most effective development plans possible.

Development through Physical Capital: The Incentives Dilemma

The most commonly employed approach to building rural economies involves investments in public infrastructure and the development of tax incentives, with the goal of making the location as attractive as possible to potential employers. This strategy springs from the logic that a given firm's choice of location depends primarily on the expected profitability of a region, given its financial climate and physical infrastructure. Tax credits and quality roads, for example, serve to lure businesses with the promise of low operating expenses and high accessibility. But if the goal of a community is to provide an economic advantage to firms, competition between communities to provide the *greatest* advantage becomes virtually inescapable.

Strategies for economic development that rely on physical capital tend to drive communities to compete—rather than cooperate—with one another. The challenge becomes one of seeing who can provide the biggest tax breaks or who can invest the most in public infrastructure, as competing areas take extra risks and offer bigger incentives in hopes of being the "winner." Though all regions involved would be better off working together towards a mutually beneficial outcome, often a contest emerges to see who can bend over backwards the farthest.⁶

Under such circumstances, all parties stand to lose, to one degree or another. For starters, the "losers"—the vying re-

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gions that fail to land the hypothetical firm—miss out on the benefits of housing a source of employment and commerce. That much seems obvious. However, they might not be the only ones missing out on financial benefits. In an effort to present the juiciest incentives package, the “winning” region may put itself at a considerable disadvantage in order to offer the biggest advantage to the firm in question. Other than an influx of jobs, then, the *firm* comes out as the biggest winner. The region essentially gives it a place to operate. The public sector of the region also stands to encounter problems if its leaders myopically focus on “the prize” at the expense of other community needs. Finally, the firm itself stands to be harmed by the bidding war scenario, believe it or not. If the choice of where a firm locates depends too heavily upon which region offers the biggest monetary incentives, the firm could conceivably select a location that does not foster the most efficient business operations, not yielding, in the long run, the greatest financial benefits.

Given the prevalence of incentives packages, one might expect them to be one of the primary determinants of where firms choose to set up shop. Not so. In fact, empirical findings demonstrate that the elasticity of firm location decisions with respect to incentive packages tends to be very small, often indistinguishable from zero. Taxes often are significantly negatively related to firms’ choice of location, but prove to be only minimally important in firms’ decisions between potential market areas. Only when a general location has been determined do tax policies have a major effect on decisions between intraregional locations. As considerable anecdotal evidence shows bidding wars to be the rule rather than the exception, firms have come to expect them and generally force matching packages between regions. Therefore, the actual size of any one location’s incentive package will likely have only minor effects on a firm’s choice of location, explaining the low elasticity of firm responses to such incentives.

Despite these criticisms, some analysts have argued that a “targeted” approach to financial incentives might be effective. Under targeting, policies could be designed to operate only in regions suffering from particularly high unemployment or poverty, working from the premise that unemployed or underemployed workers have a lower opportunity cost and the returns to public investments would be higher. As Timothy Bartik claimed, “Because the unemployed are more desperate in higher unemployment areas, even more expensive subsidies may have benefits exceeding costs.”⁷

None of this, however, is meant to present investment in physical capital as a fruitless or misguided approach to rural economic development. Indeed, the considerable potential returns for becoming a new, core site for manufacturing or a major service center can pay great dividends on a region’s investments, provided the investments have been made carefully and wisely. In other words, there’s a reason this type of strategy has become so popular and prevalent.

Offering tax incentives for firms locating or expanding in Kentucky certainly stands to attract employers, who in turn can boost the economy with the jobs they supply. And in contrast to our earlier discussion of “winners” and “losers,” investments in physical capital have the potential to produce

win-win situations in which the firm and the region reap equal rewards. A manufacturing center, for example, yields a product of value-added character, bringing export earnings into the region that cycle through the local economy, spilling over into the service and retail sectors. The promise of such benefits to the region largely motivates officials’ willingness to extend public funds to attract firms,⁸ even though such spending is sometimes done at the expense of other community services.

In an effort to foster investments in physical capital, state government has established several programs that provide tax incentives for firms locating in Kentucky. The Kentucky Rural Development Act, for example, offers high-powered incentives for rural areas, providing even higher tax credits for firms in counties where unemployment has been higher than the state average for the last five years. The Kentucky Industrial Act and the Kentucky Jobs Development Act, meanwhile, recruit larger employers, with minimum investment criteria of \$500,000 or 15 new full-time jobs. However, questions still remain as to the effectiveness of these programs as well as the types of firms attracted by such efforts, particularly in rural areas of the state.

Human and Social Capital: Generating Jobs from Within the Community

A less direct though potentially more effective approach to rural economic development entails investments in human and social capital, reasoning that community health fosters economic health.⁹ Some researchers even argue that sustained economic growth not only benefits from human and social capital, but also *depends* upon them.¹⁰ This development strategy presupposes that improving a population’s health, education, training, and access to technology, while supporting civic organization and community centers, encourages the creation of jobs within the community. Having an educated, skilled, happy, and healthy rural population also can increase the incidence of entrepreneurial behavior, leading to greater job opportunities and increased incomes. In short, grow the people and they’ll grow the economy.

A number of organizations currently work to bolster such entrepreneurship throughout the state. The Commonwealth Small Business Development Corporation provides a conduit for financing small business projects under \$750,000, while the Kentucky Economic Development Finance Authority supplements private financing for small businesses. These capital access tools provide financing to help overcome capital market failures and encourage the development and expansion of small businesses in Kentucky. State government has also been actively involved in assisting small businesses and entrepreneurial activity. The Kentucky Small Business Development Center, for example, offers business-planning consultations with new and existing small businesses in the Commonwealth, raising the productivity and management skills of small firms in order to ensure their survival and productivity. The Rural Innovation Fund helps by providing up to \$50,000 over two years for firms to work with regional universities and small business centers to produce new technology, and targets small firms in more remote rural regions in need of technology transfer assistance. These, of course,

do not represent the totality of such efforts across the state, but serve to illustrate the kinds of assistance available to Kentucky's small businesses and entrepreneurs.

Without a doubt, our state's greatest investment in human capital has been its commitment to reforming primary and secondary education: investments in physical and social capital would bear little fruit without an educated populace. Likewise, as education improves, investments in physical and social capital stand to yield greater returns. Public schools, universities, community colleges, and technical schools together serve as the linchpin of our human capital and economic development: an ample supply of jobs will make little difference to the economy without qualified workers to fill them. Given the vital role of our education system, Kentucky cannot afford to grow complacent in its efforts to raise the quality and accessibility of our schools if we are truly committed to building and strengthening our rural economies.

The great disadvantage of relying on investments in human and social capital to develop rural economies stems from the amount of time it often takes to get results. We might be doing a commendable job of educating our children, for example, but it will be years before most of them enter the workforce. In the meantime, economic struggles continue. Complicating matters, our rural areas often don't have quality jobs to provide to their educated, qualified citizens, prompting those people to move elsewhere in search of gainful employment. Going back to our previous example, not only must we wait for these educated children to enter the workforce, we must also have quality jobs waiting for them if we want to keep them in their communities.

The delay of returns to investments can be problematic for other types of human and social capital as well. Supporting entrepreneurs obviously stands to boost the economy, but how long will it take for that boost to be felt? Given the individualistic nature of entrepreneurship, one idea might begin to pay off within six months, while another might take six years. Such investments require patience and commitment, but in the long run will do nothing but improve the vitality of rural economies simply by providing *opportunity*.

Amenity-Based Economic Development

While investing in physical capital can help attract employers, and investing in human capital yields an educated and potentially entrepreneurial workforce, quality of life and quality of place cannot be overlooked as drivers of rural economic development. Tax incentives certainly stand to attract businesses, but without a good quality of life, what will attract workers? Combining efforts to create new local amenities and complement existing natural amenities has the

potential to draw people into a region, helping to ensure a stable supply of workers.¹¹

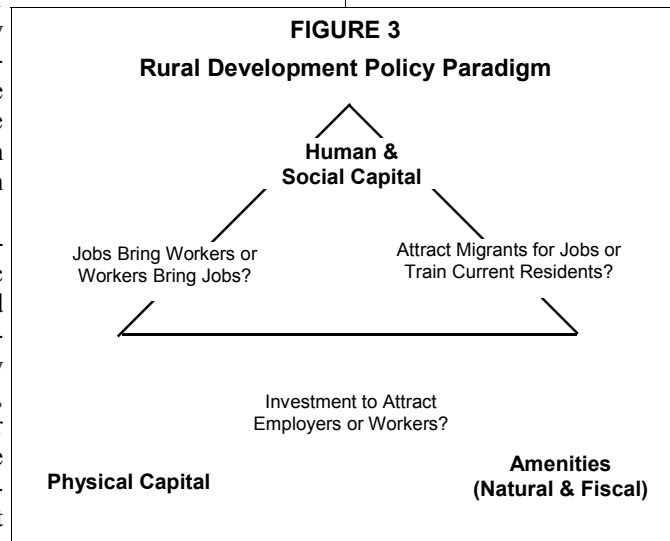
While regions making physical capital investments seek to produce economic growth by attracting businesses, regions using amenity-based development strive to boost their economies by attracting *people*. Under this strategy, rural areas bring in workers, and thus jobs, by boosting their attractiveness as a place to visit, live, work, and retire. The source of a region's attractiveness, however, varies from place to place, from topographic features and cultural opportunities, to climate, access to the arts, and a generally slower pace of life. Clearly, what works for one region will not necessarily work for another, but all such strategies strive to lure some combination of working professionals, tourists, and retirees.

Amenity investments currently tend to target recreation and tourism development schemes, with the intention of bolstering the local economy by attracting people seeking natural and cultural amenities. Tourism-based economies in turn boost their stature by improving amenities that increase the attractiveness of short-term and long-term visits to the area. Some rural areas with recreation and/or tourism potential have, in fact, experienced rapid growth by expanding the service sector, helping to boost the popularity of this approach.¹²

Besides growing economies by attracting tourists, some areas attempt growth by reaching out to retirees in search of a high quality of life in their leisure years. Here, retirement income provides a potentially stabilizing force for the local economy. High-wage sectors can then develop within such communities, driven by an increased demand for health care, financial, and other services. In turn, service workers may be drawn to the very amenities that first attracted retirees.

Recognizing the potential for amenity-based economic development, the state put into place the Kentucky Tourism Development Act, an effort to encourage cultural, historical, and recreational site development. In

order to maximize the "draw" power of such sites, the Act excludes lodging and retail facilities unlikely to serve out-of-state visitors, and requires a minimum \$1 million investment, effectively restricting the Act to larger entities and projects. Other examples of amenity-based development include the Kentucky Heritage Council and Renaissance Kentucky, which provide financial and technical support to encourage downtown development and redevelopment. Such support may take the form of Community Development Block grant money for façade and building redevelopment, or for assessments of current housing and commercial space. These programs focus resources on revitalizing the attractiveness and functionality of downtowns, creating new jobs, and reestablishing communities' economic centers.



Amenity-based development holds pitfalls of its own, particularly if a region's economy relies too heavily on tourism, since too much focus on tourism can have negative economic, social, and environmental effects on communities. As such, tourism and recreation are not universally accepted as development panaceas for rural areas and should comprise only a small part of an area's economy. A dominance of trade and service sectors in rural economies likely will result in sector-based economic instability, which can happen regardless of the indirect effects these sectors have on general economic dynamics.¹³ In addition, care must be taken that the very amenities that attract people do not lead to environmental degradation and land use pressures, nor create critical strains on local government resources.


Rural Development That Works

A comparison of the relative strengths and weaknesses of these three classifications of rural economic strategies accentuates the fact that no single approach will achieve maximum sustainable growth without contributions from the other two. Figure 3 depicts the questions policymakers must answer as they consider these interdependencies and formulate development strategies for their regions. *Will growth come from creating jobs to attract workers, or from attracting jobs by training workers? Will a region invest in physical capital to attract employers, or in amenities to attract workers? Will amenities be used to attract migrant workers, or will the community use its human and social capital to educate and train current residents?* Though clearly interdependent, the entire pattern of causation between amenities, jobs, and people remains undiscovered and merits further exploration.¹⁴

In order to maximize effectiveness, policymakers must take stock of their regions' resources, as their strategies and policies should complement the resources and nature of their communities. Obviously, different strategies will be required of different communities: not everyone can take the same road to the same destination. However, choosing one policy over another will always come at some cost, as the creation of certain opportunities precludes the creation of others. In addition, many factors affect the efficacy of a given policy. For example, a region remote from urban areas may not be able to exploit tourism-based development, but its low cost of living and natural amenities (climate, parks, and open spaces) may pose the opportunity to become a retirement community (such as Washington County, Utah). A region, therefore, must play to its strengths.

Given the global nature of the interaction between strategies, no single policy can address all three approaches adequately. Communities should recognize and account for their own virtues and shortcomings, striking a balance between strategies. An amenity-poor community, for example, will likely fail to strengthen its economy if its policy's success relies too heavily on amenities: better to focus on physical, human, and social capital. Policymakers must also factor in the short-term and long-term effects of a given strategy, using short-term gains to lay the groundwork for long-term success. Communities struggling economically quite obvi-

ously need prompt results, but these immediate payoffs must accrue to long-term gains. Likewise, crafting a policy that will not reap benefits for the first 30 years fails to serve the populace in the interim, increasing the likelihood that residents will leave the region.

To its credit, the Commonwealth of Kentucky has enacted statutes, formed agencies, and created funds along all three axes of the rural development policy paradigm, in addition to efforts by community groups, businesses, and entrepreneurs to strengthen the economic future of our rural areas. Just as the three basic strategies exist interdependently, so, too, do Kentuckians. We must continue in our efforts to grow our rural economies, investing in physical, social, and human capital, and improving natural and fiscal amenities; but we must also find ways to work together in the process to maximize our success. The task at hand requires reflection, vigilance, patience, and creativity as we determine our resources and devise the means to use them to our greatest advantage. In the end, success will depend on our vision, action, and cooperation, and on our ability to integrate each of the rural development strategies into our blueprints for the future. 

Notes

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⁷ Timothy Bartik, *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo: W.E. Upjohn Institute, 1991).

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⁹ L. Beaulieu and D. Mulkey (eds.), *Investing in People: The Human Capital Needs of Rural America* (Boulder, CO: Westview, 1995).

¹⁰ Robert D. Putnam, *Bowling Alone* (New York: Simon and Schuster, 2000).

¹¹ Steven C. Deller, Tsung-Hsiu Tsai, David W. Marcouiller, and Donald B. K. English, "The Role of Amenities and Quality of Life in Rural Economics Growth," *American Journal of Agricultural Economics* 83.2 (2001): 352-365.

¹² Amy Glasmier and Marie Howland, "Service-Led Rural Development: Definitions, Theories and Empirical Evidence," *International Regional Science Review* 16.1,2 (1997): 197-229.

¹³ Christopher Fawson, Dawn Thilmany, and John E. Keith, "Employment Stability and Sectoral Dominance," *American Journal of Agricultural Economics* 80.3: 521-533.

¹⁴ M.J. Greenwood, "Human Migration: Theory, Models, and Empirical Studies," *Journal of Regional Science* 25 (1985): 521-544.

Rural Redux

By Michael T. Childress

Rural development policies are obviously important to those who live in rural areas. Perhaps less obvious are the benefits of rural development for *urban* areas. The symbiotic relationship between urban and rural regions is suggested by a February 2000 assertion from the North Carolina Rural Prosperity Task Force: *There's a secret weapon we can use in our war to wage smart growth: rural North Carolina.*

Thousands migrate every year from rural to urban counties seeking economic opportunity, thereby contributing to rural decline and urban sprawl. Thus, an important component of any smart growth initiative—which typically has an exclusively urban focus—is a comprehensive rural development strategy. Such a strategy would be aimed at giving more rural residents the opportunities to live and work in their home communities while yielding the added benefit of alleviating urban sprawl somewhat. In short, bridging the urban-rural opportunity gap in Kentucky offers benefits to both urban and rural residents.

Migration in Kentucky

Between 1990 and 2000, 28 Kentucky counties experienced net out-migration, that is, the number of people moving out of the county exceeded those who moved in. While these 28 counties are distributed across all across the state, the mountains of eastern Kentucky experienced the highest net out-migration (see map).

Hardin, Pike, and Christian counties led the state with the highest levels of net out-migration at more than 6,000 individuals for each county (see Figure 1), but most of the out-migration from Hardin and Christian counties can be explained by soldiers leaving Fort Knox and Fort Campbell. Five of the remaining seven counties in the top ten are in the mountain region of eastern Kentucky—Harlan, Perry, Floyd, Letcher, and Bell. The other two counties in the top ten, Jefferson and Kenton, are located in the urban triangle.

We hasten to note, however, that nearly all of Kentucky's 120 counties experienced net in-migration from 1990 to 2000. The urban triangle region had seven of the top ten in-migration counties, led by Boone and Fayette (see Figure 2). Counties located outside the urban triangle—Warren, Laurel, and Pulaski—complete the top ten.

Opportunity Fuels Migration

Economic opportunity is clearly a principal cause of intercounty migration. Many measures show Kentucky's urban areas doing better than rural ones: wages are 20 percent higher, unemployment is lower, and poverty is lower. Indeed, Scorsone, *et al.* note in "Bridging the Rural-Urban Opportunity Gap," in this issue of *Foresight*, that, "rural Kentucky continues to fall behind both urban Kentucky and the United States as a whole with regard to job growth, wages, and overall income." Coomes and Price elaborate:

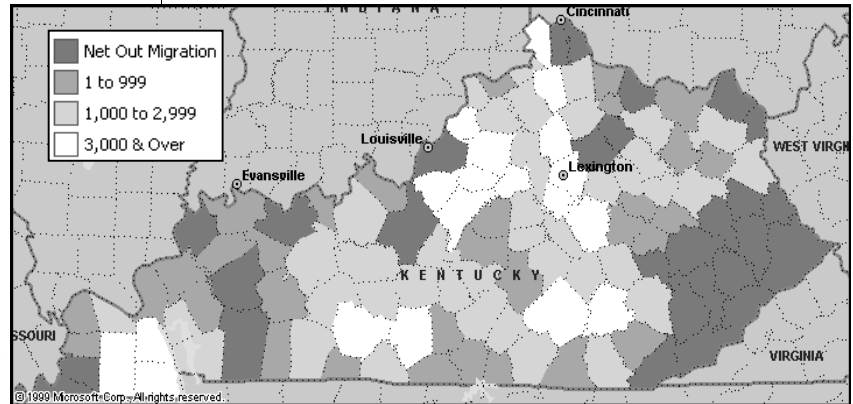


FIGURE 1
Ten Kentucky Counties with Highest Rate of Net Out-Migration, 1990-2000

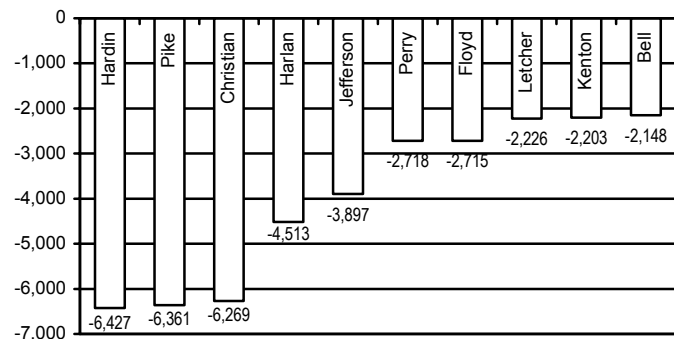
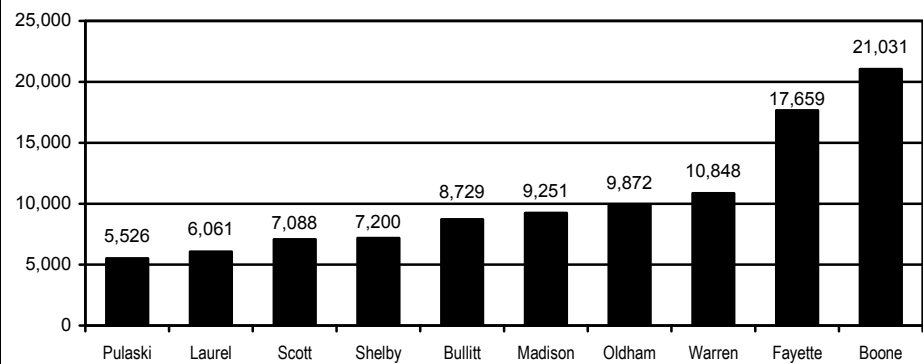


FIGURE 2
Ten Kentucky Counties with Highest Rate of Net In-Migration, 1990-2000



The migration of working age persons, particularly young adults, is caused by employment opportunities. Net out-migration of persons ages 18-29 years during 1992-1999 has been significant from the Mountains, Owensboro-Henderson, and Ashland areas. Over a decade, the cumulative impact of migration reduced the expected population of young adults by roughly 25 percent in these three regions. In contrast, more young adults have been attracted to the Northern Kentucky, Lexington, and Louisville areas than have left.¹

Clearly, there is an association between a county's economic vitality and its net migration—either in or out. As a point of illustration, we calculated the percentage change in average earnings per job from 1990 to 1999 for all Kentucky counties and then categorized them into one of four groups: low, low-medium, medium-high, and high.² Each group includes approximately 30 counties. We then calculated the total migration from 1990 to 2000 for the four groups. The counties with the lowest percentage change in average earnings per job experienced net out-migration of over 7,000 people (see Figure 3). Conversely, the counties with the highest increases in average job earnings experienced the highest net in-migration.

IRS Data Show Migration Patterns

We also analyzed the most recent Internal Revenue Service data on county-to-county migration to shed additional light on migration patterns. Here, we focus on the two counties with the highest net in-migration during the 1990s—Boone and Fayette—and the two counties (without military installations) with the highest net out-migration—Pike and Harlan.

The data illustrated in Table 1 represent changes in residence from 2000 to 2001. For example, there were 1,956 federal individual income tax returns filed in 2001 (for tax year 2000) by individuals in Boone County who lived in Kenton County in 2000, where their previous tax return was filed (2000 filing year, 1999 tax year). These 1,956 tax returns represent 3,874 exemptions, which is roughly equivalent to the number of people accounted for in these tax returns.³

Table 1 illustrates at least two major points. First, when people migrate, they tend to stay close to home. The most significant numbers of migrants into Boone and Fayette counties issued from contiguous or nearby counties, rather than distant locales. Likewise, migrants from Pike and

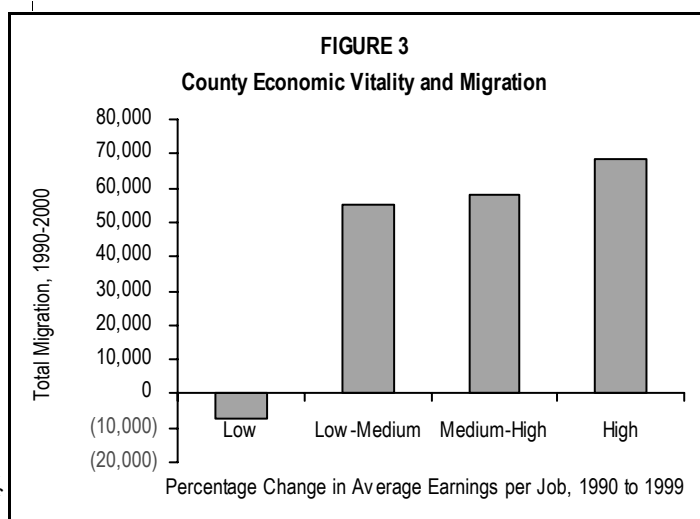
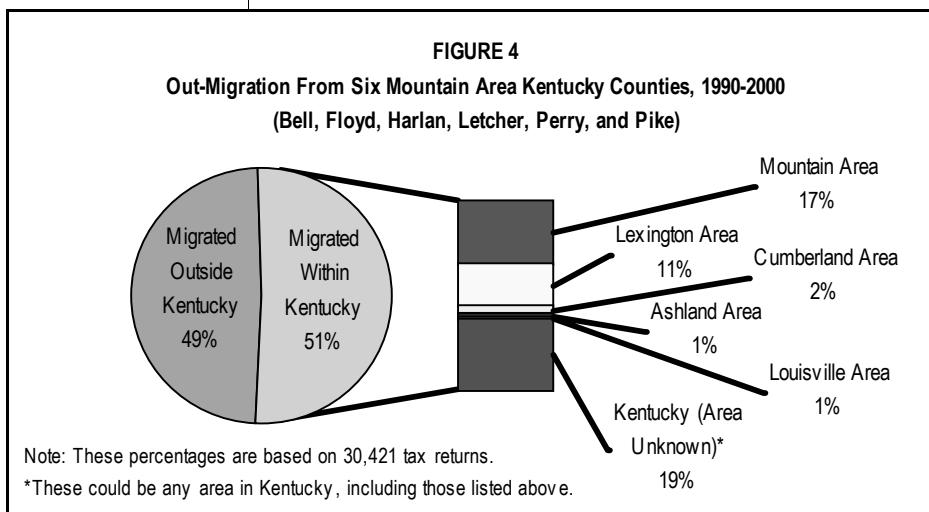


TABLE 1
Intercounty Migration for Four Kentucky Counties, 2000-2001
(Top 10 Source/Destination Counties)*

Migration to Boone County		Migration to Fayette County		Migration from Pike County		Migration from Harlan County	
From County (Top 10 Source Counties)	No. of Tax Returns	From County (Top 10 Source Counties)	No. of Tax Returns	To County (Top 10 Destination Counties)	No. of Tax Returns	To County (Top 9 Destination Counties)	No. of Tax Returns
Kenton (KY)**	1,956**	Jessamine (KY)	542	Fayette (KY)	114	Madison (KY)	37
Hamilton (OH)	419	Madison (KY)	394	Floyd (KY)	105	Fayette (KY)	33
Campbell (KY)	291	Jefferson (KY)	385	Mingo (WV)	52	Bell (KY)	29
Grant (KY)	221	Scott (KY)	278	Letcher (KY)	32	Laurel (KY)	28
Fayette (KY)	102	Woodford (KY)	269	Johnson (KY)	22	Claiborne (TN)	18
Clermont (OH)	92	Clark (KY)	260	Madison (KY)	22	Knox (TN)	15
Butler (OH)	87	Franklin (KY)	213	Jefferson (KY)	16	Knox (KY)	13
Dearborn (IN)	60	Bourbon (KY)	189	Rowan (KY)	16	Letcher (KY)	12
Jefferson (KY)	60	Boyle (KY)	117	Menifee (KY)	13	Hamblen (TN)	10
Gallatin (KY)	51	Pike (KY)	114	Montgomery (KY)	13	n.a.*	-

Source: Internal Revenue Service
 * We have specific Harlan County information for only the top 9 destination counties (not the top 10).
 ** Hints for reading this table: There were 1,956 Federal individual income tax returns filed in 2001 (for Tax Year 2000) by individuals in Boone County who lived in Kenton County in 2000, where their previous tax return was filed (2000 filing year, 1999 Tax Year).



Harlan counties clearly prefer to remain close to home, even if it means moving across the state line into West Virginia (e.g., Mingo County) or Tennessee (e.g., Claiborne, Knox, or Hamblen counties).

Second, migrants from Pike or Harlan counties opting to leave the eastern Kentucky mountain region tend to migrate

to a county in the urban triangle, usually Fayette or Madison County. One can see, for example, that Fayette County was the top destination for migrants from Pike County in 2000-2001, while Madison County was the top destination for Harlan County migrants.

These two patterns hold up when we extend the analysis to the decade of the 1990s and examine the out-migration patterns from the six eastern Kentucky counties with the highest net out-migration: Bell, Floyd, Harlan, Letcher, Perry, and Pike. From 1990 to 2000, the IRS data reveal the movement of over 30,400 federal individual income tax returns from these six counties, which represents approximately 60,000 people.⁴ Where did these people go? Figure 4 shows that about half (49 percent) left the state while the other half remained in Kentucky. Of those who remained in Kentucky, 17 percent of the returns showed up the next year in another county in the mountain area while 11 percent moved to the Lexington area.

Conclusions and Implications

Adequate economic opportunities in rural Kentucky will not completely solve growth problems in urban Kentucky. Nonetheless, viable rural development policies can play an important role in statewide “smart growth” efforts, slowing, and perhaps reversing, rural decline. A significant number of Kentuckians migrated in the last decade from rural areas to the urban triangle in pursuit of economic opportunity; IRS data confirm that many remained in or near their rural communities. Also, these intercounty migration patterns suggest that regional approaches to development are clearly warranted. Growth and development problems in Lexington, for example, cannot be solved without simultaneously addressing development issues in surrounding and eastern Kentucky counties. As we noted in a 1995 Center report, “The poverty or prosperity of any part of Kentucky—rural or urban—influences the state’s overall well-being. It is therefore difficult, if not impossible, to conceive of a strategy for greater economic and social well-being that does not recognize and systematically address the development of rural Kentucky.”⁵

Notes

¹ Paul Coomes and Michael Price, *The Recent Economic Performance of Regions in Kentucky* (University of Louisville, May 2001): 37.

² Counties in which the change in average earnings per job from 1990 to 1999 ranged between -3.8% and 30% are included in the “low” category. If the change was between 30.2% and 38.5%, they are included in the “low-medium” group. Counties with growth rates between 39.5% and 46.1% are “medium-high,” and the “high” category is reserved for counties with rates of 47% and greater.

³ The number of exemptions is “roughly equivalent to the number of people” because there are circumstances in which one cannot claim oneself as an exemption on one’s own tax return (e.g., if a parent, or someone else, is already claiming one as a dependent).

⁴ We should note that it is possible, indeed likely, that some people are being counted more than once in this decade-long analysis. For example, it is possible someone moved from Pike to Fayette County in 1991, and then from Fayette back to Pike in 1993. If they moved from Pike County again, they are counted again.

⁵ Michal Smith-Mello, *Reclaiming Community, Reckoning with Change* (Frankfort: Kentucky Long-Term Policy Research Center, 1995): xiii.

policy notes

on issues of importance to Kentucky’s future

Policy Notes are short takes on some of the tall topics before our state. These two-page briefs offer accessible, useable information, from state survey findings to trends in other states. The most frequently accessed documents on the Center’s website, they can be found at:



www.kltprc.net/policynotes/policynotes.htm

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No. 11: *Experience with Elder Care Services Diminishes Satisfaction* (June 2002) Public opinion about elder services and the influence firsthand experience with these services has on it.

LIVING IN A CHANGED WORLD

ASSESSING THE HOMELAND SECURITY THREAT: LONG-TERM IMPLICATIONS FOR KENTUCKY

November 21, 2002, Executive Inn Rivermont, Owensboro, Kentucky

**The 9th Annual
Conference of the**

KENTUCKY
LONG-TERM POLICY RESEARCH CENTER

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In the wake of 9-11, horror and fear gripped our nation. But it quickly yielded to remarkable and uplifting civic spirit. Today, this same uniquely American capacity for bravely, collectively confronting challenges great and small is again being tested. Hard economic realities followed 9-11. The economy faltered, revenues declined, added security costs took a bite out of already strained public and private budgets, and insurance rates skyrocketed, to name but a few of the effects. We are still reckoning with the realities of living in a changed world.

Join fellow Kentuckians from across the Commonwealth for the ninth annual conference of the Kentucky Long-Term Policy Research Center, jointly sponsored by the New Cities Foundation, for discussions about the aftereffects of 9-11 and possible responses. Health, technology, the economy, agriculture, infrastructure, tourism, the military, and government at every level will be among the topics of discussion. From the interrelationships of these issues to trends and implications for the future of our state, experts and frontline "combatants" in this new and uncertain battle to reclaim what has been lost will offer provocative and informative discussion.

Join us to hear from national experts and other leaders about trends and future prospects. Learn what some are doing to "take back the night," emerge stronger and more capable of facing the uncertainty that lies ahead, meet future challenges, seize new opportunities, and thrive in the face of it all.

FEATURED SPEAKER

Dr. Bruce Hoffman
International Terrorism
Expert and Vice President
for External Affairs for RAND



One of the world's foremost experts on terrorism, Dr. Bruce Hoffman advises governments and businesses around the world and is frequently featured as a commentator on CNN, National Public Radio, and the Lehrer NewsHour.

Dr. Hoffman, who holds degrees in government, history, and international relations and received his doctorate from Oxford University, is Vice President for External Affairs and Director of The RAND Corporation Washington, D.C., office. He founded the Centre for the Study of Terrorism and Political Violence at the University of St Andrews in Scotland and currently serves as Editor-in-Chief of *Studies in Conflict and Terrorism*, the leading scholarly journal in the field.

Dr. Hoffman also chairs the International Research Group on Political Violence, a Washington, D.C.-based group, jointly sponsored by the U.S. Institute of Peace and the Airey Neave Trust in London, which seeks new approaches to countering terrorism. In recognition of his academic contributions to the study of political violence, he was awarded the first Santiago Grisolia Prize in June 1998 and accompanying Chair in Violence Studies by the Queen Sofia Center for the Study of Violence in Valencia, Spain.

The New York Times Book Review calls Dr. Hoffman's latest book, *Inside Terrorism*, a valuable work and a "must read" for those who want to understand how best to respond to acts of terrorism.

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Just copy this registration form as many times as needed and mail or fax the completed form, with or followed by a check or money order payable to Kentucky Long-Term Policy Research Center, to the Center at: 111 St. James Court, Frankfort, KY 40601-8486 or Fax: 502-564-1412 or 800-383-1412, or register online at: www.kltprc.net/conference2002.htm.

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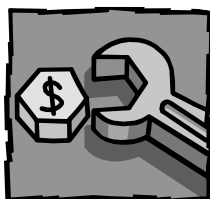
Cancellations received after November 13, 2002, will not be refundable. Substitutions are welcome. "No shows" will be charged the full fee.

Scanning Kentucky

Emerging trends and issues that may affect the Commonwealth's future

Effects of Recession on States' Finances Are Staggering

Legislatures in 39 states began their regular sessions this year facing fiscal challenges unseen in at least a decade, according to a recent article in *The New York Times*. Some of



the problem is of their own making. During the cash-flush 1990s, America's state legislators passed tax cuts totaling \$35 billion while they continued to respond to public demand for increased spending. Now, forced to find solutions in today's slow economy, they may provide Congress with some ideas

for reducing the federal deficit.

The last decade, particularly the last seven years, was one of robust revenue growth for most states. Now the rainy day has come with a vengeance. The effect of the slowing economy—recession or not—on state finances has been staggering. According to a December 2001 survey by the National Conference of State Legislatures, 43 states reported revenues below forecasts. Spending is already above budgeted levels in 19 states, and another 7 expect cost overruns.

The National Governors Association reported that its members faced a gap between projected revenue and projected spending that could reach \$50 billion, almost 10 percent of states' budgets. A budget shortfall of 6.5 percent in the early 1990s led to severe cuts in services and forced 44 states to raise taxes. This one looks considerably worse. Almost no state has escaped unscathed.

At the same time that state officials are dealing with a steep decline in revenue growth, they face a re-emerging challenge on the spending side of the ledger: Medicaid. The program is squeezing state budgets due to increases in prescription drug prices, demands by providers for higher payments and growth in the population eligible to participate in the programs. On average, Medicaid expenses rose 14 percent in 2001, more than double targeted estimates.

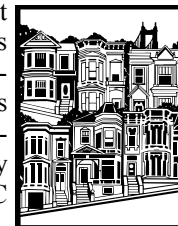
Implications for Kentucky. With an unresolved budget shortfall, Kentucky has yet to reckon fully with the implications of a slumping economy. And, unlike other states, the Commonwealth did not experience robust revenue growth during boom times, making sound fiscal management its only frontline defense against declining revenues and rising costs. Recent actions by the General Assembly sought to contain some Medicaid costs, but the difficult challenge of modernizing the state's tax structure was left essentially untended. It's an issue that will likely surface and resurface as post-9-11 costs mount, an aging population contributes fewer dollars to state coffers, and the capacity of our current tax structure becomes increasingly inadequate to the challenges ahead.

Affordable Housing Linked to Jobs and Education

Growth in the low-income population is outpacing expansion of affordable housing, according to Kentucky Housing

Corporation (KHC). Phase I of the Kentucky Housing Needs Assessment is an initial analysis of population and housing trends since 1980. The study finds that, although housing costs are relatively low in Kentucky, incomes are also relatively low. The single largest housing problem in Kentucky, it concludes, is the lack of rental housing affordable to low-income households.

Conducted by the University of Louisville's Urban Studies Institute for KHC, the study concludes that economic development and housing policies should be linked. Because the affordability problem is one of inadequate income, "Kentucky's current emphasis on improving educational outcomes in the state may well be an effective way to mitigate future affordability problems." KHC Chief Executive Officer F. Lynn Luallen stated, "The findings in this study clearly demonstrate that affordable housing, job, and education are tied together as quality of life issues."



Implications for Kentucky. Now recognized as a national problem, the depleted stock of affordable housing presents an even more pronounced problem in a state with persistently high poverty rates. While higher educational achievement and higher incomes offer long-term solutions, this study illustrates the extent of current problems with housing gaps in Kentucky. An inadequate stock of housing not only presents profound difficulties for low-income residents and their families, it also complicates the pursuit of education and opportunity and sends a negative signal to would-be migrants. Thus, addressing this fundamental quality-of-life issue now is key to development of the Commonwealth.

One in Ten U.S. Residents Foreign-Born

The number of foreign-born and first-generation U.S. residents has reached the highest level in U.S. history, 56 million, or a ratio of 1-in-5, according to the U.S. Census Bureau. The number of people in 2000 who either were foreign-born or had at least one foreign-born parent grew from 34 million in 1970. The foreign-born population *alone* was estimated at 28 million, or 1 in 10 U.S. residents, in 2000. "And the number of foreign-born and first-generation residents is likely to rise in the future as recent immigrants form families," said the Census Bureau's Dianne Schmidley, author of "Profile of the Foreign-Born Population in the United States 2000." Births to foreign-born women now account for 1 in 5 U.S. births, up from about 1 in 20 three decades ago.

As a result of the high levels of international migration of young adults to the United States during the 1970-2000 period, the foreign-born and first-generation population has become not only larger, but also younger. "Contrary to popular belief," said Schmidley, "most children who live with foreign-born parents were born in the United States and not abroad." Indeed, among the 11.5 million children who lived

with foreign-born householders in 2000, about 8 in 10 were born in the United States.

Implications for Kentucky. Like most states, Kentucky's future is likely to be one of greater diversity fed by a flow of foreign immigrants. The early stages are readily visible in even the most rural areas of the state. But we live in a different world than pre-September 11. How the flow of immigrants, who have grown to be an essential component of our labor force, will be affected by past and threatened future terrorist attacks is but one of the many questions the Center will address this fall at its conference in Owensboro. See details on page 9.

U.S. Physician Shortage Predicted

The U.S. has fewer physicians per dollar of gross domestic product than most countries in the Organization for Economic Cooperation & Development, according to a *Business Week* report on findings from a study first published in the January/February 2002 issue of *Health Affairs*, a well-respected policy journal. The authors argue that



the United States is likely to face an increasingly serious shortage of physicians over the next two decades. Further, they point out that the demand for medical services over the past 70 years has grown 50 percent faster than GDP. Taking into account the number of medical school graduates, the number of foreign doctors, and the ongoing substitution of nurse practitioners, physicians' assistants, and

nurse-midwives for physicians, they calculate that the nation will have a shortage of 50,000 physicians in 2010. If these trends continue, the shortage will rise to 200,000 by 2020, more than 20 percent total demand.

Implications for Kentucky. While physician shortages are not news to many rural states and regions, a national shortage could worsen the situation in these areas and add to a brewing health care crisis. Already, health care faces enormous challenges, not the least of which is containing once again out-of-control costs and addressing an already critical shortage of nurses. A substantially weakened supply of physicians portends more of the same: rising costs for government, which covers the poorest and the sickest of U.S. citizens, and fewer citizens who can afford to pay their own way. But it could also pose new ethical dilemmas in a nation that a recent National Public Radio poll shows is becoming increasingly uncomfortable with its present system of rationing health care based on income. Fewer physicians would almost certainly necessitate more extensive rationing of care and, at the same time, raise the specter of limiting high-quality care only to the wealthiest of Americans, something poverty advocates argue that we already do.

Maternity Leave Time Shorter

Major changes in maternity leave and employment patterns have occurred, indicating longer-term commitments by women to the workplace, a study of data for 1960 to 1995 shows. The report by the Commerce Department's Census

Bureau discusses changes in the characteristics of first-time mothers, how rapidly mothers with newborns return to work,



trends in women's work experience before their first birth, and changes in U.S. society, including the enactment of family-related legislation such as the Pregnancy Discrimination Act of 1978 and the Family and Medical Leave Act of 1993. The report also addresses the hours worked, pay levels, and job-skill levels for new mothers returning to the workforce.

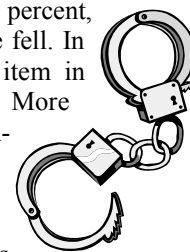
Implications for Kentucky. While the longer-term commitments of women to the labor force found by the Census Bureau suggest growing financial strength among women, better preparation for retirement, and diminished vulnerability for longer-lived women, these data also are indicative of the economic stress on families, as well as the limited provisions of the Family Leave Act, that often necessitate rapid returns to work. While women's economic status is steadily improving, diminished time with infant children may not be good news for their long-term health and well-being.

Prison Closures Up Due to Budget Deficits

Ohio, Michigan, and Illinois have each recently moved to close a prison, laying off guards in the process, prison officials say in a January article in *The New York Times*. After three decades of building more prisons and passing tougher sentencing laws, many states are being forced by budget deficits to close some prisons, lay off guards, and consider shortening sentences. Washington is considering a proposal by Gov. Gary Locke to shorten sentences for nonviolent crimes and drug offenses and make it easier for inmates to win early release, thus saving money by shrinking the prison population. Colorado and Illinois are delaying building prisons, and Illinois is cutting education for 25,000 inmates. California, which led the nation's prison-building boom, will close five small, privately operated minimum-security prisons when their contracts expire this year.

Budget pressures are also adding momentum to a push to put a proposal on the California ballot in November that would reduce the number of criminals subject to the state's three-strikes sentencing law. Since the early 1970s, the number of state prisoners has increased 500 percent, growing each year in the 1990s even as crime fell. In that time, prisons were the fastest-growing item in state budgets—often the only growing item. More than two million inmates were in state and federal prisons and local jails, which cost more than \$30 billion a year to run.

Implications for Kentucky. As fiscal pressures rise, many state policies are being revisited, including what NCSL calls the "lock 'em up mentality" that has prevailed for many years. States are looking to lower-cost alternatives to prison for drug offenders, in response to referenda in California and Arizona. Drug courts are now in every state, and treatment is being used as the first option in a number of first-offense cases. Indeed, a sea change in crime policy is likely underway, propelled by hard fiscal realities.



The 2002 Vic Hellard Jr. Award

for service in the interest of Kentucky's future

Nominations for the 2002 Vic Hellard Jr. Award are now being accepted by the Board of the Kentucky Long-Term Policy Research Center. Given annually in memory and recognition of Mr. Hellard's leadership and service to the Commonwealth, this honor recognizes an individual who, by his or her example and leadership, has advanced citizen goals for the future. Nominating letters should explain how the candidate:

- ☞ Demonstrates vision, considering the long-term implications for the public good;
- ☞ Demonstrates innovation, finding new approaches while appreciating history;
- ☞ Champions the equality and dignity of all;
- ☞ Enhances the processes of a democratic society, promoting public dialogue, educating citizens and decisionmakers, and fostering civic engagement; and
- ☞ Approaches work with commitment, caring, generosity, and humor.

Letters of nomination must be submitted by September 30, 2002, to:

Dr. Betty Griffin, Chair
Kentucky Long-Term Policy Research Center
111 St. James Court
Frankfort, KY 40601

Or submit your nomination online at:
www.kltprc.net/hellardaward.htm

The 2002 award will be presented at the Center's 9th annual conference, November 21, 2002, at the Executive Inn Rivermont in Owensboro, Kentucky. Conference details are on page 9.

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